Breathing new life into the textile sector

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(November 29, 2012) : Propelled upwards by a buying spree, stocks for the textile sector have been hitting the high note at the local bourses the past few months with the overall turnover of shares for the sector having passed the 2.5 billion mark since the start of CY12. And as far as analyst predictions go, the rejuvenation is set to continue further, as riding proud on the wave of a significant turnaround in earnings for the sector, the latest financials are set to stir up investor interest in the coming days. Data released by PBS backs the sentiment, with textile exports up till the 4MFY13 mark coming in at 4.4 billion dollars, up by a significant 4.3 percent over figures for the same period last year. Moreover, textile exports for the month of October alone have clocked in at 1.12 billion dollars, off the back of higher than average earning from the export of value added textiles including knitwear, home linens and RMGs. Other significant contributors towards the sectors improved prospects have been the Rupees significant depreciation against the greenback and the stability witnessed in local cotton prices which have helped textile manufacturers curtail their inventory losses this quarter. Consequently, according to analysts at Topline Securities, composite gross margins for the textile sector have been improved by a hefty 440 bps during the last four months, scaling up to 12.5 percent during 1QFY13 against the 8.1 percent recorded during the same period last year. However, Yarn exports have remained the star attraction this past quarter, with PBS reporting 62 percent increase in export volumes during the 1QFY13. Demand from China, meant that the local spinners have been consistently pegging in at full capacity, resulting in a hefty bottom line growth for the sector during the quarter. Albeit, the thriving yarn exports have recently lagged behind somewhat, as export statistics for the month of October saw a nearly 16 percent month-on-month decline over the stellar statistics for September. Although rebounding manufacturing in China is being credited with cooling off the demand for the Pakistani yarn, Chinese interest in buying low value added yarn and grey cloth of Pakistani origin should remain sustainably positive during the foreseeable future on account of the rising labour costs faced by Chinese firms who are actively pushing upwards on the value addition ladder. Additional good news for the textile industry comes in the form of the slash back in the Gas Infrastructure Development Cess that was put in place subsequent to the announcement in the Federal budget for FY13. Going forward, assumptions are that the GIDC reduction is going to be instrumental in cutting back the cost of doing business for the local spinners and weavers, benefitting the sectors profitability on the whole. Moreover, a rate cut on the EFS and Long Term Financing Facility is also expected to act as a salve to the local players. With SBP bringing down the maximum chargeable EFS rate down from 11 percent to 9.5 percent, better incentives are henceforth being presented to the export-oriented industry that remains the largest contributor towards the nations foreign earnings.